AR57

FOUR SEASONS
Hotels and Resorts

FAX MEMORANDUM

CORPORATE OFFICE
1165 LESLIE STREET, TORONTO, ONTARIO, CANADA M3C 2K8

Date: April 28, 2000 | Page 1 of: 37

To: Sandy Hilton
PhD Student

From: Lydia Wolk, Admin. Assistant to
Barbara Henderson
Vice President
Tax and Investor Relations

Location: University of Waterloo

Location: FS Corporate Office

Fax Number: 519 888 7562

Fax Number: (416) 441 4409

Subject: ***Four Seasons Hotels Inc. - US GAAP Reconciliations***

Further to your e-mail request, here are the 1997, 1998 and 1999 US GAAP Reconciliations. Note that there is no 1996 US GAAP Reconciliation. A comparison between 96 and 97 is made in the 1997 Reconciliation.

If there is anything further that you require, please let me know.

/lyd
Attachment

If transmission is incomplete, please contact sender.

Name: Lydia Wolk

Telephone: (416) 441 4448

Reconciliation to United States GAAP

Auditor's Report on Supplementary Information

The Board of Directors
Four Seasons Hotels Inc.

Under date of February 18, 1997, we reported on the consolidated balance sheets of Four Seasons Hotels Inc. as at December 31, 1996 and 1995, and the consolidated statements of operations, deficit, cash provided by operations and changes in financial position for the years then ended. In connection with our audits of the aforementioned consolidated financial statements, we also have audited the attached supplemental note entitled "Reconciliation to United States GAAP." This supplemental note is the responsibility of the Corporation's management. Our responsibility is to express an opinion on this supplemental note based on our audits.

In our opinion, the attached supplemental note, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein as at December 31, 1996 and 1995 and for the two years then ended.

Toronto, Canada
February 18, 1997

KPMG
Chartered Accountants

Reconciliation to United States GAAP *(continued)*

Years ended December 31, 1996 and 1995
(In thousands of dollars except per share amounts)

The consolidated financial statements of the Corporation for the years ended December 31, 1996 and 1995 (the "Consolidated Financial Statements") have been prepared in accordance with generally accepted accounting principles ("GAAP") as applied in Canada. In the following respects, GAAP as applied in the United States differs from that applied in Canada.

If US GAAP were employed, the net earnings (loss) for the periods would be adjusted as follows:

	1996	1995
Net earnings (loss) based on Canadian GAAP	$ 29,866	$ (74,571)
Impact on net earnings (loss) of US GAAP adjustments:		
Hotel partnerships – equity accounting (A)	(2,935)	(9,223)
Hotel disposition programme (B)	—	13,887
Deferred income taxes (C)	(2,832)	34,359
Pension plan (D)	153	(905)
Deferred charges (E)	(593)	2,970
Net earnings (loss) based on US GAAP	$ 23,659	$ (33,483)
Primary and fully diluted earnings (loss) per share based on US GAAP (G)	$ 0.80	$ (1.18)

The impact of the US GAAP differences discussed above on the Corporation's consolidated shareholders' equity is as follows:

	1996	1995
Shareholders' equity based on Canadian GAAP	$ 88,060	$ 57,234
Impact on shareholders' equity of US GAAP adjustments:		
Hotel partnerships – equity accounting (A)	(55,381)	(49,802)
Hotel disposition programme (B)	(7,389)	(7,389)
Deferred income taxes (C)	104,816	107,648
Pension plan (D)	(2,177)	(2,330)
Deferred charges (E)	(15,898)	(15,261)
Employee Preference Shares and share purchase loans (H)	(849)	(1,859)
Shareholders' equity based on US GAAP	$111,182	$ 88,241

(A) Investments in Hotel Partnerships and Ventures:

The Corporation has minority interests (generally less than 20%) in certain hotel partnerships and ventures which, for Canadian GAAP purposes, the Corporation accounts for on a cost basis (see note 1(b) to the Consolidated Financial Statements).

Under US GAAP (AICPA Statement of Position 78-9 "Accounting for Investments in Real Estate Ventures"), the Corporation is required to account for its investments in these hotel partnerships and ventures using the equity method of accounting, pursuant to which the Corporation records in income its proportionate share of the investee's net earnings or loss.

(B) Hotel disposition programme:

In November 1993, the Corporation and FRA Properties implemented a programme to dispose of seven hotel properties. Under Canadian GAAP, this hotel disposition programme represented the disposition of a significant portion of the Corporation's Hotel Ownership segment; accordingly, in both 1993 and 1994 the Corporation made an estimate as to whether it would realize a net gain or loss on the programme in total. As a result, in 1993 the Corporation recorded a provision of $127,000 for the estimated probable loss on the sale of the hotels included in the hotel disposition programme. The programme ended in 1996, and the total net proceeds received by the Corporation resulting from the dispositions of the hotels included in the programme approximated the proceeds estimated in 1993; therefore, the programme required no further gain or loss to be recorded in 1996 or 1995.

Under US GAAP, the Corporation was required to account for the hotels remaining in the programme as individual assets held for sale. This resulted in the requirement under US GAAP to record, in the fourth quarter of 1994, a further provision for loss on certain of the hotels remaining in the programme, with the offsetting gains on other hotels recorded when the gains were realized.

Effective January 1, 1996, the Corporation adopted Statement of Financial Accounting Standards No. 121 ("FAS 121") which provides guidance on the accounting for the impairment of long-lived assets under US GAAP. Prior to FAS 121, the test for recognition of impairment under Canadian and US GAAP was basically the same. However, under FAS 121, the test for recognition of impairment and the measurement of an impairment loss are different than under Canadian GAAP. Since FAS 121 was not effective for the Corporation's 1995 fiscal period, the Corporation has not determined what the amount of the provision for loss on hotel partnerships would have been if FAS 121 had been retroactively applied. Adoption of FAS 121 did not have a material impact on the consolidated financial statements for the year ended December 31, 1996.

(C) Accounting for deferred income taxes:

The Corporation follows the "deferral method" of accounting for deferred income taxes, pursuant to which the Corporation records deferred taxes on "timing differences" (differences between accounting and tax treatment of certain revenues and expenses), using tax rates effective for the year in which the timing differences arise. In addition, the Corporation did not recognize future tax benefits in connection with provisions for loss of $127,000 recorded in 1993 and $95,000 recorded in 1995, because, under Canadian GAAP, the Corporation did not have virtual certainty that it would realize these tax benefits prior to their expiry.

Under US GAAP, the Corporation is required to use the "asset and liability method" of accounting for deferred income taxes, which gives recognition to deferred taxes on all "temporary differences" (differences between accounting basis and tax basis of the Corporation's assets and liabilities) using currently enacted tax rates. In addition, US GAAP requires the Corporation to record all deferred tax assets, including the future tax benefits of losses carried forward. The Corporation is then required to record a "valuation allowance" for any deferred tax assets where it is more likely than not that the asset will not be realized.

(D) Pension plan:

The Corporation has a defined benefit pension plan for certain vice presidents and hotel general managers. This plan is funded by life insurance policies on the lives of each of the participants in the plan.

Under US GAAP, the Corporation is required to separately account for its investment in the life insurance policies and its obligations under the plan. In addition, the amortization of certain pension related items and the discount rates used to calculate pension obligations are different under US GAAP.

Reconciliation to United States GAAP *(continued)*

(E) Deferred charges:

The Corporation defers expenditures directly related to the negotiation, structuring and execution of new hotel management contracts, and if the hotel is opened, amortizes these deferred costs on a straight-line basis over a 10 year period (see note 1(f) to the Consolidated Financial Statements).

Under US GAAP, such hotel start-up costs are expensed.

(F) Impact of new US accounting pronouncements:

(i) Stock-based compensation plans:

In October 1995, the Financial Accounting Standards Board in the United States issued Statement of Financial Accounting Standards No. 123 ("FAS 123") which provides guidance on the accounting for stock-based compensation plans, such as the Corporation's Director, Officer and Employee Stock Option Plans (the "Plans"). FAS 123 is effective for financial statements for fiscal years beginning after December 15, 1995.

As allowed by FAS 123, the Corporation has decided to continue to use Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" in accounting for the Plans for US GAAP purposes, pursuant to which there is no significant difference between US and Canadian GAAP in the accounting for the granting of options under the Plans.

FAS 123, however, requires certain pro forma and other information to be disclosed as if the Corporation had measured the compensation element of stock options granted based on the fair value of the options on the date of grant (see note (M)).

(ii) Transfers of financial assets and extinguishments of liabilities:

In June 1996, the Financial Accounting Standards Board in the United States issued Statement of Financial Accounting Standards No. 125 ("FAS 125") which provides guidance on the accounting for transfers and servicing of financial assets and the extinguishments of liabilities occurring after December 31, 1996. FAS 125 distinguishes transfers of financial assets that are sales from transfers that are secured borrowings, and will apply to the Corporation's housing loans to officers and employees which are transferred to financial institutions. The Corporation does not expect that adoption of FAS 125 will have a material impact on the Corporation's financial position or results of operations.

(iii) Earnings per share

In February 1997, the Financial Accounting Standards Board in the United States issued Statement of Financial Accounting Standards No. 128 ("FAS 128") which provides guidance on the calculation of earnings per share. FAS 128 requires basic earnings per share to be calculated by dividing earnings available to common shareholders by the weighted average number of common shares outstanding during the period. Common stock equivalents are excluded from the calculation of basic earnings per share, but are included in the calculation of fully diluted earnings per share. FAS 128 is effective for fiscal years ending after December 15, 1997; earlier application is not permitted. Adoption of FAS 128 will eliminate the difference between US and Canadian GAAP in the way in which the number of shares outstanding is determined for purposes of calculating basic earnings per share (as discussed in note (G) below).

(G) EARNINGS PER SHARE:

Primary earnings per share on a US GAAP basis differs from basic earnings per share on a Canadian GAAP basis in that the primary earnings per share calculation under US GAAP is computed by application of the "treasury stock method" taking into account dilution related to shares issuable under the Corporation's stock option plans and on conversions of outstanding Employee Preference Shares.

The weighted average number of common shares and common share equivalents used to calculate earnings per share were 29,738,855 and 28,441,908 in 1996 and 1995, respectively.

(H) EMPLOYEE PREFERENCE SHARES AND SHARE PURCHASE LOANS:

Pursuant to the Securities and Exchange Commission rules, the Employee Preference Shares are mandatorily redeemable preference shares, and cannot be included in shareholders' equity. Rather they must be presented as a separate caption outside of shareholders' equity.

Under US GAAP, share purchase loans are deducted from shareholders' equity.

(I) STATEMENTS OF CASH FLOW FROM OPERATIONS AND CHANGES IN FINANCIAL POSITION:

(i) For Canadian GAAP purposes, the Corporation's statement of cash flow from operations shows intermediate sub-totals, and only shows the total change in non-cash operating assets and liabilities.

US GAAP does not permit intermediate sub-totals in cash flow from operations, and requires the statement to show the details of changes in non-cash operating assets and liabilities. In addition, the above adjustments to US GAAP earnings relating to deferred charges would also affect cash flow from operations.

As a result, cash flow from operations would be presented as follows on a US GAAP basis:

	1996	1995
Net earnings (loss) based on US GAAP	$ 23,659	$ (33,483)
Adjustments:		
Depreciation and amortization	12,631	15,733
Provision for loss	—	77,512
Equity in losses of and distributions from hotel partnerships	2,935	9,223
Deferred income taxes	3,062	(33,869)
Other	128	52
Changes in non-cash working capital:		
Accounts receivable	(4,120)	2,416
Inventory	(4)	164
Prepaid expenses	449	68
Accounts payable and accrued liabilities	2,920	(645)
Foreign currency translation effect on non-cash working capital	48	(238)
Cash flow from operations based on US GAAP	$ 41,708	$ 36,933

(ii) For Canadian GAAP purposes, the Corporation's statement of changes in financial position shows dividends as a caption separate from financing activities.

Under US GAAP, dividends paid must be presented as a financing activity.

RECONCILIATION TO UNITED STATES GAAP *(continued)*

(iii) As a result of the above adjustments, the major captions on the Corporation's statement of changes in financial position on a Canadian GAAP basis are reconciled to a US GAAP basis as follows:

	1996	1995
Cash flow from operations based on Canadian GAAP	$ 43,661	$ 38,714
Deferred charges	(1,953)	(1,781)
Cash flow from operations based on US GAAP	41,708	36,933
Cash used in financing based on Canadian GAAP	(42,715)	(33,904)
Dividends	(3,042)	(3,130)
Cash used in financing based on US GAAP	(45,757)	(37,034)
Cash provided by (used in) capital transactions based on Canadian GAAP	(19,558)	26,617
Deferred charges	1,953	1,781
Cash provided by (used in) capital transactions based on US GAAP	(17,605)	28,398
Increase (decrease) in cash	$ (21,654)	$ 28,297

(J) INVESTMENTS IN HOTEL PARTNERSHIPS AND CORPORATIONS:

The composition of the Corporation's total investments in and notes from hotel partnerships and corporations on a US GAAP basis are as follows:

	1996	1995
Equity method investments:		
FRA Properties	$ —	$ 16,500
Other hotel partnership interests	19,119	19,190
Total equity method investments	19,119	35,690
Other investments, on a cost basis	2,559	80
Total investments in hotel partnerships and corporations based on US GAAP	$ 21,678	$ 35,770

Due to the nature of the FRA Properties partnership agreement and the Corporation's funding commitments to the hotels it contributed to FRA Properties, the above equity method of accounting for the Corporation's investment to December 30, 1996 (see notes 2(a)(iii) and 5(a) to the Consolidated Financial Statements) represents the cost originally allocated to FRA Properties, adjusted for: (i) capital contributions to FRA Properties, (ii) 100% of the net earnings or loss of the contributed hotels, and (iii) write-offs for impairment in the carrying value of the investment in FRA Properties.

For the other hotel partnership investments, the above equity method of accounting for these investments represents the aggregate of: (i) capital contributions to the partnerships, (ii) the Corporation's proportionate share of the net earnings or loss of the partnerships, (iii) distributions from the partnerships, and (iv) write-offs for impairment in the carrying value of the investment in the partnerships.

The changes in the Corporation's equity method investments are as follows:

	1996	1995
Equity method investments, beginning of year	$ 35,690	$ 88,686
Net earnings (loss)	6,718	(3,014)
Distributions received	(13,097)	(6,209)
Additional investments	15,665	11,970
Write-off of investments	—	(35,355)
Transfer/sale of net assets and other	(25,857)	(20,388)
Equity method investments, end of year	$ 19,119	$ 35,690

Management and other fees totalling $26,007 and $28,480 were charged by the Corporation to its equity method investees in 1996 and 1995, respectively.

Summarized balance sheet information as at December 31, 1995 (see note 5(a) to the Consolidated Financial Statements) of the FRA Properties hotels contributed by the Corporation, presented on a 100% basis, is as follows:

	1995
Current assets	$ 18,587
Long-term assets, net	24,237
	$ 42,824
Current liabilities	$ 34,822
Equity	8,002
	$ 42,824

Summarized results of operations of the FRA Properties hotels contributed by the Corporation, which includes the results of the Four Seasons Hotel Toronto until the date of sale in 1996, presented on a 100% basis, are as follows:

	1996	1995
Revenues	$ 140,397	$ 187,773
Expenses	(140,292)	(196,761)
Net earnings (loss)	$ 105	$ (8,988)

RECONCILIATION TO UNITED STATES GAAP *(continued)*

Summarized balance sheet information of the other hotel partnerships (none of which is individually significant), presented on a 100% basis, is as follows:

	1996	1995
Current assets	$ 52,085	$ 62,217
Long-term assets, net	272,612	286,436
	$ 324,697	$ 348,653
Current liabilities	$ 65,458	$ 150,680
Long-term debt and other	140,816	121,616
Equity	118,423	76,357
	$ 324,697	$ 348,653

Summarized results of operations of the other hotel partnerships (none of which is individually significant), which includes the results of the Four Seasons Resort Nevis until the date of sale in 1996, presented on a 100% basis, are as follows:

	1996	1995
Revenues	$ 359,152	$ 332,954
Expenses	(319,607)	(319,260)
Net earnings	$ 39,545	$ 13,694

The proportionate taxable income or loss of all partnership joint ventures is included in the taxable income of their respective partners. Accordingly, no provisions for income taxes on such entities are included in the above statements.

(K) ACCOUNTS PAYABLE AND ACCRUED LIABILITIES:

Accounts payable and accrued liabilities on a US GAAP basis consist of:

	1996	1995
Trade accounts payable	$ 14,473	$ 8,144
Payroll and employee benefits	11,394	4,403
Accrued interest	6,928	8,832
Provision for contingent liabilities and guarantees	4,883	15,492
Taxes payable	2,034	1,844
Other accruals	7,213	5,366
	$ 46,925	$ 44,081

(L) INCOME TAXES:

The sources of earnings (loss) before provisions for income taxes on a US GAAP basis comprise the following:

	1996	1995
Canada	$ 14,570	$ (84,361)
Foreign	13,881	20,402
	$ 28,451	$ (63,959)

The (provision) recovery for income taxes on a US GAAP basis are as follows:

	1996	1995
Current		
Canada	$ (62)	$ (58)
Foreign	(1,668)	(3,335)
	(1,730)	(3,393)
Deferred		
Canada	(2,882)	33,421
Foreign	(180)	448
	(3,062)	33,869
	$ (4,792)	$ 30,476

During 1996 and 1995, the Corporation paid income taxes of $1,730 and $3,393 respectively.

Income tax expense on a US GAAP basis varies from the amount computed by applying combined Canadian federal and provincial tax rates to earnings (loss) before income taxes on a US GAAP basis as follows:

	1996	1995
Earnings (loss) before income taxes based on US GAAP	$ 28,451	$ (63,959)
Items not subject to tax	(3,700)	(1,812)
Earnings (loss) subject to tax	24,751	(65,771)
Statutory Canadian federal and provincial tax rates	41.5%	41.5%
Expected income tax recovery (expense)	(10,272)	27,295
Reduction in tax due to lower foreign tax rates	4,089	4,225
Change in beginning of year balance in valuation allowance for deferred tax assets	3,320	1,245
Adjustments to deferred tax assets and liabilities for changes in tax basis caused by tax reorganizations, dispositions, etc.	(1,867)	(2,231)
Other	(62)	(58)
Income tax recovery (expense) based on US GAAP	$ (4,792)	$ 30,476

Reconciliation to United States GAAP *(continued)*

The significant components of deferred income tax recovery (expense) attributable to earnings (loss) before income taxes on a US GAAP basis are as follows:

	1996	1995
Deferred tax recovery (expense) (exclusive of the effects of the following components)	$ (4,515)	$ 34,855
Adjustments to deferred tax assets and liabilities for changes in tax basis caused by tax reorganizations, dispositions, etc.	(1,867)	(2,231)
Decrease in valuation allowance	3,320	1,245
	$ (3,062)	$ 33,869

The valuation allowance for the year ended December 31, 1996 was $14,110 (1995 – $17,430), a decrease of $3,320 (1995 – decrease of $1,245). In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, the character of the tax asset and tax planning strategies in making this assessment. In order to fully realize the deferred tax assets the Corporation will need to generate future taxable income of approximately $180,000. Based upon projections of future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Corporation will realize the benefits of these deductible differences, net of the existing valuation allowance. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimated future taxable income during the carryforward period is reduced

Deferred income taxes on a US GAAP basis arise from temporary differences in the basis of the Corporation's assets and liabilities for tax and financial reporting purposes. Tax effects of these differences are as follows:

	1996	1995
Deferred tax assets:		
Investments in hotel partnerships	$ 37,337	$ 36,246
Tax losses carried forward and other assets	27,034	33,349
Fixed assets	22,230	20,952
Long-term receivables	26,487	21,844
Investments in trademarks and trade names	2,935	3,447
Long-term debt	4,666	12,806
Deferred tax asset before valuation allowance	120,689	128,644
Valuation allowance	(14,110)	(17,430)
Total gross deferred tax assets	106,579	111,214
Deferred tax liabilities:		
Investment in management contracts	(2,428)	(2,919)
Current liabilities	(2,830)	(3,912)
Total gross deferred tax liabilities	(5,258)	(6,831)
Net deferred tax asset	$ 101,321	$ 104,383

At December 31, 1996, the Corporation had accumulated net operating losses carried forward of approximately $48,193 for tax purposes, which expire as follows:

Year ending 1999	$ 3,084
2000	13,028
2001	26,617
2002	5,464
	$ 48,193

(M) CAPITAL STOCK:

Changes in stock options for the years ended December 31, 1996 and 1995 were as follows:

	Option Price Range (per Share)	Options Outstanding	Available for Grant
Balance at December 31, 1994	$ 7.00 to $14.93	2,158,465	552,489
Granted	$14.08 to $17.28	409,725	(409,725)
Exercised	$ 7.00 to $12.63	(65,596)	—
Cancelled	$11.30	(3,000)	3,000
Balance at December 31, 1995	$ 7.00 to $17.28	2,499,594	145,764
Granted	$18.65 to $26.68	85,000	(85,000)
Exercised	$ 7.00 to $15.36	(106,990)	—
Cancelled	$11.30 to $15.36	(21,050)	21,050
Balance at December 31, 1996	$ 7.00 to $26.68	2,456,554	81,814
Exercisable at December 31, 1996		1,188,983	

The compensation element of stock options issued by the Corporation in 1996 and 1995, based on the fair value of the options on the date of grant, has been estimated using a Black-Scholes option pricing model with the following assumptions for 1996 and 1995, respectively: risk-free interest rates ranging from 6.1% to 7.3% and 7.7% to 8.6%; semi-annual dividend per Limited Voting Share of $0.055 for both years; volatility factors of the expected market price of the Corporation's Limited Voting Shares ranging from 27% to 28% and 33% to 45%; and an expected life of the options of 10 years. The weighted-average grant-date fair values of options issued in 1996 and 1995 was $12.58 and $9.92, respectively. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period which ranges from one to ten years. Retroactive application of the fair value method to prior years is not permitted; therefore, the full effect of the fair value method will not be reflected in the pro forma disclosures until it has been applied to all nonvested options. Assuming the Corporation had accounted for its stock options issued under the fair value method, US GAAP pro forma net earnings and earnings per share for the year ended December 31, 1996 would have been $22,808 and $0.77, and US GAAP pro forma net loss and loss per share for the year ended December 31, 1995 would have been $34,177 and $1.20.

RECONCILIATION TO UNITED STATES GAAP *(continued)*

(N) PENSION PLAN:

The following sets forth the funded status for the Corporation's pension plan:

	1996	1995
Actuarial present value of benefit obligations:		
Accumulated benefit obligation, including vested benefits of $17,127 and $14,844, respectively	$ 17,255	$ 14,954
Projected benefit obligation for service rendered to date	$ 21,095	$ 18,516
Unrecognized net loss for changes in assumptions	(4,440)	(4,857)
Unrecognized net transition asset	(358)	(538)
Accrued pension liability based on US GAAP before allocation	16,297	13,121
Portion allocated to managed properties	(6,227)	(4,645)
	$ 10,070	$ 8,476
Pension cost on a US GAAP basis includes the following components:		
Service costs	$ 876	$ 743
Interest cost on projected benefit obligation	1,545	1,265
Net amortization	597	325
Net periodic cost before allocation	3,018	2,333
Cost allocated to managed properties	(1,253)	(1,075)
	$ 1,765	$ 1,258

Assumptions used in accounting for the pension plan were:

	1996	1995
Discount rates	8%	8%
Rates of increase in compensation levels	5%	5%

RECONCILIATION TO UNITED STATES GAAP

AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

The Board of Directors
Four Seasons Hotels Inc.

Under date of February 18, 1998, we reported on the consolidated balance sheets of Four Seasons Hotels Inc. as at December 31, 1997 and 1996, and the consolidated statements of operations, deficit, cash provided by operations and changes in financial position for the years then ended. In connection with our audits of the aforementioned consolidated financial statements, we also have audited the attached supplemental note entitled "Reconciliation to United States GAAP." This supplemental note is the responsibility of the Corporation's management. Our responsibility is to express an opinion on this supplemental note based on our audits.

In our opinion, the attached supplemental note, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein as at December 31, 1997 and 1996 and for the two years then ended.

Toronto, Canada
February 18, 1998

KPMG
Chartered Accountants

RECONCILIATION TO UNITED STATES GAAP

(continued)

Years ended December 31, 1997 and 1996
(In thousands of dollars except per share amounts)

The consolidated financial statements of the Corporation for the years ended December 31, 1997 and 1996 (the "Consolidated Financial Statements") have been prepared in accordance with generally accepted accounting principles ("GAAP") as applied in Canada. In the following respects, GAAP as applied in the United States differs from that applied in Canada.

If US GAAP were employed, the net earnings for the periods would be adjusted as follows:

	1997	1996
Net earnings based on Canadian GAAP	$ 40,770	$ 29,866
Impact on net earnings of US GAAP adjustments:		
Hotel partnerships – equity accounting (A)	(1,783)	(2,935)
Hotel disposition program (B)	33,347	—
Deferred income taxes (C)	(10,432)	(2,832)
Pension plan (D)	(355)	153
Deferred charges (E)	(2,316)	(593)
Loss on repurchase of debt (F)	12,021	—
Earnings before extraordinary item based on US GAAP	71,252	23,659
Loss on repurchase of debt, net of income tax recovery of $4,989 (F)	(7,032)	—
Net earnings based on US GAAP	$ 64,220	$ 23,659
Basic earnings per share based on US GAAP (G):		
Earnings before extraordinary item	$ 2.17	$ 0.83
Extraordinary item	(.21)	—
Net earnings	$ 1.96	$ 0.83
Diluted earnings per share based on US GAAP (G):		
Earnings before extraordinary item	$ 2.02	$ 0.79
Extraordinary item	(.20)	—
Net earnings	$ 1.82	$ 0.79

The impact of the US GAAP differences discussed above on the Corporation's consolidated shareholders' equity is as follows:

	1997	1996
Shareholders' equity based on Canadian GAAP	$ 254,513	$ 88,060
Impact on shareholders' equity of US GAAP adjustments:		
Hotel partnerships – equity accounting (A)	(54,744)	(55,381)
Hotel disposition program (B)	25,958	(7,389)
Deferred income taxes (C)	99,373	104,816
Pension plan (D)	(2,532)	(2,177)
Deferred charges (E)	(18,223)	(15,898)
Share purchase loans (H)	(834)	(849)
Shareholders' equity based on US GAAP	$ 303,511	$ 111,182

(A) INVESTMENTS IN HOTEL PARTNERSHIPS AND VENTURES:

The Corporation has minority interests (generally less than 20%) in certain hotel partnerships and ventures which, for Canadian GAAP purposes, the Corporation accounts for on a cost basis (see note 1(b) to the Consolidated Financial Statements).

Under US GAAP (AICPA Statement of Position 78-9 "Accounting for Investments in Real Estate Ventures"), the Corporation is required to account for its investments in these hotel partnerships and ventures using the equity method of accounting, pursuant to which the Corporation records in income its proportionate share of the investee's net earnings or loss.

(B) HOTEL DISPOSITION PROGRAM:

In November 1993, the Corporation and FRA Properties implemented a program to dispose of seven hotel properties. Under Canadian GAAP, this hotel disposition program represented the disposition of a significant portion of the Corporation's Hotel Ownership segment; accordingly, in both 1993 and 1994 the Corporation made an estimate as to whether it would realize a net gain or loss on the program in total. As a result, in 1993 the Corporation recorded a provision of $127,000 for the estimated probable loss on the sale of the hotels included in the hotel disposition program. The program ended in 1996, and the total net proceeds received by the Corporation resulting from the dispositions of the hotels included in the program approximated the proceeds estimated in 1993; therefore, the program required no further gain or loss to be recorded.

Under US GAAP, the Corporation was required to account for the hotels remaining in the program as individual assets held for sale. This resulted in the requirement under US GAAP to record, in the fourth quarter of 1994, a further provision for loss on certain of the hotels remaining in the program, with the offsetting gains on other hotels recorded when the gains were realized. During 1997, the Corporation met the criteria under US GAAP for recognition of a portion of the gain on the 1995 sale of its 50% interest in the company that owns the Four Seasons Hotel London. Accordingly, the Corporation recognized $32,407 of the gain, which represented the recovery of the Corporation's cost; $25,606 of the gain continues to be deferred, and will be recognized for US GAAP purposes in proportion to the cash payments received on the cash flow bond received in 1995 as consideration on the sale (see note 4(a) to the Consolidated Financial Statements).

Effective January 1, 1996, the Corporation adopted Statement of Financial Accounting Standards No. 121 ("FAS 121") which provides guidance on the accounting for the impairment of long-lived assets under US GAAP. Prior to FAS 121, the test for recognition of impairment under Canadian and US GAAP was basically the same. However, under FAS 121, the test for recognition of impairment and the measurement of an impairment loss are different than under Canadian GAAP. Adoption of FAS 121 did not have a material impact on the consolidated financial statements for the years ended December 31, 1997 and 1996.

(C) ACCOUNTING FOR DEFERRED INCOME TAXES:

The Corporation follows the "deferral method" of accounting for deferred income taxes, pursuant to which the Corporation records deferred taxes on "timing differences" (differences between accounting and tax treatment of certain revenues and expenses), using tax rates effective for the year in which the timing differences arise. In addition, the Corporation did not recognize future tax benefits in connection with provisions for loss of $127,000 recorded in 1993 and $95,000 recorded in 1995, because, under Canadian GAAP, the Corporation did not have virtual certainty that it would realize these tax benefits prior to their expiry.

RECONCILIATION TO UNITED STATES GAAP

(continued)

Under US GAAP, the Corporation is required to use the "asset and liability method" of accounting for deferred income taxes, which gives recognition to deferred taxes on all "temporary differences" (differences between accounting basis and tax basis of the Corporation's assets and liabilities) using currently enacted tax rates. In addition, US GAAP requires the Corporation to record all deferred tax assets, including the future tax benefits of losses carried forward. The Corporation is then required to record a "valuation allowance" for any deferred tax assets where it is more likely than not that the asset will not be realized.

(D) PENSION PLAN:

The Corporation has a defined benefit pension plan for certain vice presidents and hotel general managers. This plan is funded by life insurance policies on the lives of each of the participants in the plan.

Under US GAAP, the Corporation is required to separately account for its investment in the life insurance policies and its obligations under the plan. In addition, the amortization of certain pension related items and the discount rates used to calculate pension obligations are different under US GAAP.

(E) DEFERRED CHARGES:

The Corporation defers expenditures directly related to the negotiation, structuring and execution of new hotel management contracts, and if the hotel is opened, amortizes these deferred costs on a straight-line basis over a 10-year period (see note 1(f) to the Consolidated Financial Statements).

Under US GAAP, such hotel start-up costs are expensed.

(F) LOSS ON REPURCHASE OF DEBT:

During 1997, the Corporation repurchased US$101,500 of its 9 1/8% Notes which resulted in an accounting loss of $12,021 (see note 10(b) to the Consolidated Financial Statements). Under Canadian GAAP this loss was recorded as an operating loss.

Under US GAAP, this loss, net of applicable income tax recovery, is recorded as an extraordinary loss.

(G) EARNINGS PER SHARE:

In February 1997, the Financial Accounting Standards Board in the United States issued Statement of Financial Accounting Standards No. 128 ("FAS 128") which provides guidance on the calculation of earnings per share. FAS 128 requires basic earnings per share to be calculated by dividing earnings available to common shareholders by the weighted average number of common shares outstanding during the period. Common stock equivalents are excluded from the calculation of basic earnings per share, but are included in the calculation of diluted earnings per share by application of the "treasury stock method," which takes into account the dilution relating to shares issuable under the Corporation's stock option plans. FAS 128 is effective for fiscal years ending after December 15, 1997; earlier application is not permitted. Adoption of FAS 128 eliminated the difference between US and Canadian GAAP in the way in which the number of shares outstanding is determined for purposes of calculating basic earnings per share. It did not eliminate the difference between US and Canadian GAAP in the calculation of diluted earnings per share. As required by FAS 128, the earnings per share for the year ended December 31, 1996 has been restated.

The weighted average number of common shares used to calculate basic earnings per share were 32,824,923 and 28,653,827 in 1997 and 1996, respectively. The weighted average number of common shares and common stock equivalents (relating to the assumed conversion of shares issuable under the Corporation's stock option plans using the "treasury stock method") used to calculate diluted earnings per share were 35,200,190 and 29,815,877 in 1997 and 1996, respectively.

(II) SHARE PURCHASE LOANS:

Under US GAAP, share purchase loans are deducted from shareholders' equity.

(I) STATEMENTS OF CASH FLOW FROM OPERATIONS AND CHANGES IN FINANCIAL POSITION:

(i) For Canadian GAAP purposes, the Corporation's statement of cash flow from operations shows intermediate subtotals, and only shows the total change in non-cash operating assets and liabilities.

US GAAP does not permit intermediate subtotals in cash flow from operations, and requires the statement to show the details of changes in non-cash operating assets and liabilities. In addition, the above adjustments to US GAAP earnings relating to deferred charges would also affect cash flow from operations

As a result, cash flow from operations would be presented as follows on a US GAAP basis:

	1997	1996
Net earnings based on US GAAP	$ 64,220	$ 23,659
Adjustments:		
Depreciation and amortization	14,597	12,631
Gain on disposal of hotel investments	(33,347)	—
Equity in losses of and distributions from hotel investments	1,783	2,935
Loss on repurchase of debt, net of income tax recovery	7,032	—
Deferred income taxes	10,615	3,062
Other	(408)	128
Changes in non-cash working capital:		
Accounts receivable	(6,096)	(4,120)
Inventory	41	(4)
Prepaid expenses	(391)	449
Accounts payable and accrued liabilities	3,259	2,920
Foreign currency translation effect on non-cash working capital	18	48
Cash flow from operations based on US GAAP	$ 61,323	$ 41,708

RECONCILIATION TO UNITED STATES GAAP

(continued)

(ii) For Canadian GAAP purposes, the Corporation's statement of changes in financial position shows dividends as a caption separate from financing activities.

Under US GAAP, dividends paid must be presented as a financing activity.

(iii) As a result of the above adjustments, the major captions on the Corporation's statement of changes in financial position on a Canadian GAAP basis are reconciled to a US GAAP basis as follows:

	1997	1996
Cash flow from operations based on Canadian GAAP	$ 64,794	$ 43,661
Deferred charges	(3,471)	(1,953)
Cash flow from operations based on US GAAP	61,323	41,708
Cash provided by (used in) financing based on Canadian GAAP	6,753	(42,715)
Dividends	(3,180)	(3,042)
Cash provided by (used in) financing based on US GAAP	3,573	(45,757)
Cash used in capital transactions based on Canadian GAAP	(58,277)	(19,558)
Deferred charges	3,471	1,953
Cash used in capital transactions based on US GAAP	(54,806)	(17,605)
Increase (decrease) in cash	$ 10,090	$ (21,654)

(J) INVESTMENTS IN HOTEL PARTNERSHIPS AND CORPORATIONS:
The composition of the Corporation's total investments in and notes from hotel partnerships and corporations on a US GAAP basis are as follows:

	1997	1996
Equity method investments	$ 55,605	$ 19,119
Other investments, on a cost basis	2,532	2,559
Total investments in hotel partnerships and corporations based on US GAAP	$ 58,137	$ 21,678

For the equity method investments, the accounting for these investments represents the aggregate of: (i) capital contributions to the partnerships, (ii) the Corporation's proportionate share of the net earnings or loss of the partnerships, (iii) distributions from the partnerships, and (iv) write-offs for impairment in the carrying value of the investment in the partnerships.

The changes in the Corporation's equity method investments are as follows:

	1997	1996
Equity method investments, beginning of year	$ 19,119	$ 35,690
Net earnings	1,287	6,718
Distributions received	(5,656)	(13,097)
Additional investments	7,487	15,665
Transfer/sale of net assets and other	33,368	(25,857)
Equity method investments, end of year	$ 55,605	$ 19,119

Management and other fees totalling $16,255 and $26,007 were charged by the Corporation to its equity method investees in 1997 and 1996, respectively.

Summarized balance sheet information of the equity method investments (none of which is individually significant), presented on a 100% basis, is as follows:

	1997	1996
Current assets	$ 49,348	$ 52,085
Long-term assets, net	315,662	272,612
	$ 365,010	$ 324,697
Current liabilities	$ 57,948	$ 65,458
Long-term debt and other	188,085	140,816
Equity	118,977	118,423
	$ 365,010	$ 324,697

Summarized results of operations of the equity method investments (none of which is individually significant), which include the results of the Four Seasons Resort Nevis until the date of sale in 1996, presented on a 100% basis, are as follows:

	1997	1996
Revenues	$ 302,022	$ 359,152
Expenses	(289,610)	(319,607)
Net earnings	$ 12,412	$ 39,545

Effective December 30, 1996, the Corporation disposed of its investment in FRA Properties (see notes 2(a) and 5(c) to the Consolidated Financial Statements). Summarized results of operations of the FRA Properties hotels contributed by the Corporation, which include the results of the Four Seasons Hotel Toronto until the date of sale in 1996, presented on a 100% basis, are as follows:

	1996
Revenues	$ 140,397
Expenses	(140,292)
Net earnings	$ 105

The proportionate taxable income or loss of all partnership joint ventures is included in the taxable income of their respective partners. Accordingly, no provisions for income taxes on such entities are included in the above statements.

(K) ACCOUNTS PAYABLE AND ACCRUED LIABILITIES:

Accounts payable and accrued liabilities on a US GAAP basis consist of:

	1997	1996
Trade accounts payable	$ 16,167	$ 14,473
Payroll and employee benefits	12,188	11,394
Provision for contingent liabilities and guarantees	4,174	4,883
Accrued interest	3,503	6,928
Dividends payable	1,743	1,465
Other accruals	9,298	7,782
	$ 47,073	$ 46,925

(L) INCOME TAXES:

The sources of earnings before provisions for income taxes on a US GAAP basis comprise the following:

	1997	1996
Canada	$ 33,030	$ 14,570
Foreign	50,258	13,881
	$ 83,288	$ 28,451

The provision for income taxes on a US GAAP basis is as follows:

	1997	1996
Current		
Canada	$ (165)	$ (62)
Foreign	(1,256)	(1,668)
	$ (1,421)	$ (1,730)
Deferred		
Canada	(10,432)	(2,882)
Foreign	(183)	(180)
	(10,615)	(3,062)
	$ (12,036)	$ (4,792)

During 1997 and 1996, the Corporation paid income taxes of $1,421 and $1,730, respectively.

Income tax expense on a US GAAP basis varies from the amount computed by applying combined Canadian federal and provincial tax rates to earnings before income taxes on a US GAAP basis as follows:

	1997	1996
Earnings before income taxes based on US GAAP	$ 83,288	$ 28,451
Items (not subject to tax) not deductible:		
Gain on disposal of hotel investments	(33,347)	—
Other	7,940	(3,700)
Earnings subject to tax	57,881	24,751
Statutory Canadian federal and provincial tax rates	41.5%	41.5%
Expected income tax expense	(24,021)	(10,272)
Reduction in tax due to lower foreign tax rates	3,143	4,089
Change in beginning of year balance in valuation allowance for deferred tax assets	11,943	3,320
Adjustments to deferred tax assets and liabilities for changes in tax basis caused by tax reorganizations, dispositions, etc.	(2,932)	(1,867)
Other	(169)	(62)
Income tax expense based on US GAAP	$ (12,036)	$ (4,792)

RECONCILIATION TO UNITED STATES GAAP

(continued)

The significant components of deferred income tax expense attributable to earnings before income taxes on a US GAAP basis are as follows:

	1997	1996
Deferred tax expense (exclusive of the effects of the following components)	$ (19,626)	$ (4,515)
Adjustments to deferred tax assets and liabilities for changes in tax basis caused by tax reorganizations, dispositions, etc.	(2,932)	(1,867)
Decrease in valuation allowance	11,943	3,320
	$ (10,615)	$ (3,062)

The valuation allowance for the year ended December 31, 1997 was $14,644 (1996 – $26,587), a decrease of $11,943 (1996 – decrease of $3,320). The valuation allowance was reduced as a result of a recapitalization of the Corporation's investment in certain partnerships, completed in 1997, that permitted the Corporation to utilize losses of the partnerships. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, the character of the tax asset and tax planning strategies in making this assessment. In order to fully realize the deferred tax assets, the Corporation will need to generate future taxable income of approximately $250,000. Based upon projections of future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Corporation will realize the benefits of these deductible differences, net of the existing valuation allowance. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimated future taxable income during the carryforward period is reduced

Deferred income taxes on a US GAAP basis arise from temporary differences in the basis of the Corporation's assets and liabilities for tax and financial reporting purposes. Tax effects of these differences are as follows:

	1997	1996
Deferred tax assets:		
Investments in hotel partnerships	$ 25,341	$ 49,814
Tax losses carried forward and other assets	49,397	27,034
Fixed assets	18,759	22,230
Long-term receivables	15,551	26,487
Investments in trademarks and trade names	2,717	2,935
Long-term debt	3,979	4,666
Deferred tax asset before valuation allowance	115,744	133,166
Valuation allowance	(14,644)	(26,587)
Total gross deferred tax assets	101,100	106,579
Deferred tax liabilities:		
Investment in management contracts	(2,207)	(2,428)
Current liabilities	(3,198)	(2,830)
Total gross deferred tax liabilities	(5,405)	(5,258)
Net deferred tax asset	$ 95,695	$ 101,321

At December 31, 1997, the Corporation had accumulated net operating losses carried forward of approximately $43,725 for tax purposes, which expire as follows:

Year ending	1999	$ 2,990
	2000	11,067
	2001	28,302
	2002	1,366
		$ 43,725

(M) CAPITAL STOCK:

Changes in stock options for the years ended December 31, 1997 and 1996 were as follows:

	Option Price Range (per Share)	Options Outstanding	Available for Grant
Balance at December 31, 1995	$ 7.00 to $17.28	2,499,594	145,764
Granted	$18.65 to $26.68	85,000	(85,000)
Exercised	$ 7.00 to $15.36	(106,990)	—
Cancelled	$11.30 to $15.36	(21,050)	21,050
Balance at December 31, 1996	$ 7.00 to $26.68	2,456,554	81,814
Additional options approved by shareholders		—	1,200,000
Granted	$24.95 to $48.34	1,391,572	(1,391,572)
Exercised	$ 7.00 to $18.65	(622,493)	—
Cancelled	$11.30 to $32.07	(112,169)	112,169
Balance at December 31, 1997	$ 8.90 to $48.34	3,113,464	2,411
Exercisable at December 31, 1997		1,249,945	

In October 1995, the Financial Accounting Standards Board in the United States issued Statement of Financial Accounting Standards No. 123 ("FAS 123") which provides guidance on the accounting for stock-based compensation plans, such as the Corporation's Director, Officer and Employee Stock Option Plans (the "Plans"). FAS 123 is effective for financial statements for fiscal years beginning after December 15, 1995.

As allowed by FAS 123, the Corporation has decided to continue to use Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" in accounting for the Plans for US GAAP purposes, pursuant to which there is no significant difference between US and Canadian GAAP in the accounting for the granting of options under the Plans.

FAS 123, however, requires certain pro forma and other information to be disclosed as if the Corporation had measured the compensation element of stock options granted based on the fair value of the options on the date of grant. Accordingly, the compensation element of stock options issued by the Corporation in 1997 and 1996, based on the fair value of the options on the date of grant, has been estimated using a Black-Scholes option pricing model with the following assumptions for 1997 and 1996, respectively: risk-free interest rates ranging from 5.6% to 6.8% and 6.1% to 7.3%; semi-annual dividend per Limited Voting Share of $0.055 for both years; volatility factors of the expected market price of the Corporation's Limited Voting Shares ranging from 27% to 39% and 27% to 28%; and an expected life of

RECONCILIATION TO UNITED STATES GAAP

(continued)

the options of 10 years. The weighted-average grant-date fair values of options issued in 1997 and 1996 was $21.33 and $12.58, respectively. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period which ranges from one to five years. Retroactive application of the fair value method to prior years is not permitted; therefore, the full effect of the fair value method will not be reflected in the pro forma disclosures until it has been applied to all nonvested options. Assuming the Corporation had accounted for its stock options issued under the fair value method, US GAAP pro forma net earnings for the year ended December 31, 1997 would have been $60,282 (1996 – $22,808) and US GAAP pro forma basic earnings per share and pro forma diluted earnings per share for the year ended December 31, 1997 would have been $1.84 and $1.7?, respectively (1996 – $0.80 and $0.77, respectively).

(N) PENSION PLAN:

The following sets forth the funded status for the Corporation's pension plan:

	1997	1996
Actuarial present value of benefit obligations:		
Accumulated benefit obligation, including vested benefits of $20,514 (1996 – $17,127)	$ 20,700	$ 17,255
Projected benefit obligation for service rendered to date	$ 24,670	$ 21,095
Unrecognized net loss for changes in assumptions	(5,139)	(4,440)
Unrecognized net transition asset	(178)	(358)
Accrued pension liability based on US GAAP before allocation	19,353	16,297
Portion allocated to managed properties	(6,659)	(6,227)
	$ 12,694	$ 10,070
Pension cost on a US GAAP basis includes the following components:		
Service costs	$ 1,028	$ 876
Interest cost on projected benefit obligation	1,832	1,545
Net amortization	711	597
Net periodic cost before allocation	3,571	3,018
Cost allocated to managed properties	(1,490)	(1,253)
	$ 2,081	$ 1,765

Assumptions used in accounting for the pension plan were:

	1997	1996
Discount rates	8%	8%
Rates of increase in compensation levels	5%	5%

RECONCILIATION TO UNITED STATES GAAP

AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

The Board of Directors
Four Seasons Hotels Inc.

Under date of February 17, 1999, we reported on the consolidated balance sheets of Four Seasons Hotels Inc. as at December 31, 1998 and 1997, and the consolidated statements of operations, retained earnings (deficit), cash provided by operations and changes in financial position for the years then ended. In connection with our audits of the aforementioned consolidated financial statements, we also have audited the attached supplemental note entitled "Reconciliation to United States GAAP." This supplemental note is the responsibility of the Corporation's management. Our responsibility is to express an opinion on this supplemental note based on our audits.

In our opinion, the attached supplemental note, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein as at December 31, 1998 and 1997 and for the two years then ended.

Toronto, Canada
February 17, 1999

KPMG LLP
Chartered Accountants

RECONCILIATION TO UNITED STATES GAAP

(continued)

Years ended December 31, 1998 and 1997
(In thousands of dollars except per share amounts)

The consolidated financial statements of the Corporation for the years ended December 31, 1998 and 1997 (the "Consolidated Financial Statements") have been prepared in accordance with generally accepted accounting principles ("GAAP") as applied in Canada. In the following respects, GAAP as applied in the United States differs from that applied in Canada.

If US GAAP were employed, the net earnings for the periods would be adjusted as follows:

	1998	1997
Net earnings based on Canadian GAAP	$ 69,702	$ 40,770
Impact on net earnings of US GAAP adjustments:		
Hotel partnerships – equity accounting (A)	(2,237)	(1,783)
Hotel disposition program (B)	1,029	33,347
Deferred income taxes (C)	(25,262)	(10,432)
Pension plan (D)	763	(355)
Deferred charges (E)	(3,905)	(2,316)
Foreign exchange translation (F)	(7,778)	—
Loss on repurchase of debt (G)	376	12,021
Earnings before extraordinary item based on US GAAP	32,688	71,252
Loss on repurchase of debt, net of income tax recovery of $156 (1997 – $4,989) (G)	(220)	(7,032)
Net earnings based on US GAAP	$ 32,468	$ 64,220
Basic earnings per share based on US GAAP (H):		
Earnings before extraordinary item	$ 0.97	$ 2.17
Extraordinary item	(0.01)	(0.21)
Net earnings	$ 0.96	$ 1.96
Diluted earnings per share based on US GAAP (H):		
Earnings before extraordinary item	$ 0.93	$ 2.02
Extraordinary item	(0.01)	(0.20)
Net earnings	$ 0.92	$ 1.82

The impact of the US GAAP differences discussed above on the Corporation's consolidated shareholders' equity is as follows:

	1998	1997
Shareholders' equity based on Canadian GAAP	$ 330,403	$ 254,513
Impact on shareholders' equity of US GAAP adjustments:		
Hotel partnerships – equity accounting (A)	(56,118)	(54,744)
Hotel disposition program (B)	26,987	25,958
Deferred income taxes (C)	52,903	78,009
Pension plan (D)	(1,769)	(2,532)
Deferred charges (E)	(22,296)	(18,223)
Share purchase loans (I)	(834)	(834)
Shareholders' equity based on US GAAP	$ 329,276	$ 282,147

(A) INVESTMENTS IN HOTEL PARTNERSHIPS AND VENTURES:

The Corporation has minority interests (generally less than 20%) in certain hotel partnerships and ventures which, for Canadian GAAP purposes, the Corporation accounts for on a cost basis (see note 1(b) to the Consolidated Financial Statements).

Under US GAAP (AICPA Statement of Position 78-9 "Accounting for Investments in Real Estate Ventures"), the Corporation is required to account for its investments in these hotel partnerships and ventures using the equity method of accounting, pursuant to which the Corporation records in income its proportionate share of the investee's net earnings or loss.

(B) HOTEL DISPOSITION PROGRAM:

In November 1993, the Corporation and FRA Properties implemented a program to dispose of seven hotel properties. Under Canadian GAAP, this hotel disposition program represented the disposition of a significant portion of the Corporation's Hotel Ownership segment; accordingly, in both 1993 and 1994 the Corporation made an estimate as to whether it would realize a net gain or loss on the program in total. As a result, in 1993 the Corporation recorded a provision of $127,000 for the estimated probable loss on the sale of the hotels included in the hotel disposition program. The program ended in 1996, and the total net proceeds received by the Corporation resulting from the dispositions of the hotels included in the program approximated the proceeds estimated in 1993; therefore, the program required no further gain or loss to be recorded.

Under US GAAP, the Corporation was required to account for the hotels remaining in the program as individual assets held for sale. This resulted in the requirement under US GAAP to record, in the fourth quarter of 1994, a further provision for loss on certain of the hotels remaining in the program, with the offsetting gains on other hotels recorded when the gains were realized. During 1997, the Corporation met the criteria under US GAAP for recognition of a portion of the gain on the 1995 sale of its 50% interest in the company that owns the Four Seasons Hotel London. Accordingly, the Corporation recognized $30,200 of the gain in 1997, which represented the recovery of the Corporation's cost; $27,813 of the gain was deferred, and will be recognized for US GAAP purposes in proportion to the cash payments received on the cash flow bond received in 1995 as consideration on the sale (see note 4(a) to the Consolidated Financial Statements). The Corporation recognized $850 of the deferred gain in 1998 (1997 – $2,207). As at December 31, 1998, $24,756 of the gain continues to be deferred.

Effective January 1, 1996, the Corporation adopted Statement of Financial Accounting Standards No. 121 ("FAS 121") which provides guidance on the accounting for the impairment of long-lived assets under US GAAP. Prior to FAS 121, the test for recognition of impairment under Canadian and US GAAP was basically the same. However, under FAS 121, the test for recognition of impairment and the measurement of an impairment loss are different than under Canadian GAAP. Adoption of FAS 121 did not have a material impact on the consolidated financial statements for the years ended December 31, 1998 and 1997.

(C) ACCOUNTING FOR DEFERRED INCOME TAXES

The Corporation follows the "deferral method" of accounting for deferred income taxes, pursuant to which the Corporation records deferred taxes on "timing differences" (differences between accounting and tax treatment of certain revenues and expenses), using tax rates effective for the year in which the timing differences arise. In addition, the Corporation did not recognize future tax benefits in connection with provisions for loss of $127,000 recorded in 1993 and $95,000 recorded in 1995, because, under Canadian GAAP, the Corporation did not have virtual certainty that it would realize these tax benefits prior to their expiry.

RECONCILIATION TO UNITED STATES GAAP

(continued)

Under US GAAP, the Corporation is required to use the "asset and liability method" of accounting for deferred income taxes, which gives recognition to deferred taxes on all "temporary differences" (differences between accounting basis and tax basis of the Corporation's assets and liabilities) using currently enacted tax rates. In addition, US GAAP requires the Corporation to record all deferred tax assets, including the future tax benefits of losses carried forward. The Corporation is then required to record a "valuation allowance" for any deferred tax assets where it is more likely than not that the asset will not be realized.

(D) PENSION PLAN:

The Corporation has a defined benefit pension plan for certain vice presidents and hotel general managers. This plan is funded by life insurance policies on the lives of each of the participants in the plan.

Under US GAAP, the Corporation is required to separately account for its investment in the life insurance policies and its obligations under the plan. In addition, the amortization of certain pension related items and the discount rates used to calculate pension obligations are different under US GAAP.

(E) DEFERRED CHARGES:

The Corporation defers expenditures directly related to the negotiation, structuring and execution of new hotel management contracts, and if the hotel is opened, amortizes these deferred costs on a straight-line basis over a 10-year period (see note 1(f) to the Consolidated Financial Statements).

Under US GAAP, such hotel start-up costs are expensed.

(F) FOREIGN EXCHANGE TRANSLATION:

During 1998, the Corporation reduced its net investment in a self-sustaining foreign subsidiary and recognized a foreign exchange gain under Canadian GAAP of $7,778 (see note 12(a) to the Consolidated Financial Statements).

Under US GAAP, the foreign exchange gain can only be recognized on the sale or liquidation of the investment.

(G) LOSS ON REPURCHASE OF DEBT:

During 1998, the Corporation repurchased US$6,000 (1997 – US$101,500) of its 9 1/8% Notes which resulted in an accounting loss of $376 (1997 – $12,021) (see note 10(c) to the Consolidated Financial Statements). Under Canadian GAAP, this loss was recorded as an operating loss.

Under US GAAP, this loss, net of applicable income tax recovery, is recorded as an extraordinary loss.

(H) EARNINGS PER SHARE:

In February 1997, the Financial Accounting Standards Board in the United States issued Statement of Financial Accounting Standards No. 128 ("FAS 128") which provides guidance on the calculation of earnings per share. FAS 128 requires basic earnings per share to be calculated by dividing earnings available to common shareholders by the weighted average number of common shares outstanding during the period. Common stock equivalents are excluded from the calculation of basic earnings per share, but are included in the calculation of diluted earnings per share by application of the "treasury stock method," which takes into account the dilution relating to shares issuable under the Corporation's stock option plans. FAS 128 is effective for fiscal years ending after December 15, 1997; earlier application is not permitted. Adoption of FAS 128 eliminated the difference between US and Canadian GAAP in the way in which the number of shares outstanding is determined for purposes of calculating basic earnings per share. It did not eliminate the difference between US and Canadian GAAP in the calculation of diluted earnings per share.

The weighted average number of common shares used to calculate basic earnings per share were 33,821,777 and 32,824,923 in 1998 and 1997, respectively. The weighted average number of common shares and common stock equivalents (relating to the assumed conversion of shares issuable under the Corporation's stock option plans using the "treasury stock method") used to calculate diluted earnings per share were 35,304,355 and 35,200,190 in 1998 and 1997, respectively.

(I) SHARE PURCHASE LOANS:

Under US GAAP, share purchase loans are deducted from shareholders' equity.

(J) STATEMENTS OF CASH FLOW FROM OPERATIONS AND CHANGES IN FINANCIAL POSITION:

(i) For Canadian GAAP purposes, the Corporation's statements of cash flow from operations show intermediate subtotals, and only shows the total change in non-cash operating assets and liabilities.

US GAAP does not permit intermediate subtotals in cash flow from operations, and requires the statement to show the details of changes in non-cash operating assets and liabilities. In addition, the above adjustments to US GAAP earnings relating to deferred charges would also affect cash flow from operations.

As a result, cash flow from operations would be presented as follows on a US GAAP basis:

	1998	1997
Net earnings based on US GAAP	$ 32,468	$ 64,220
Adjustments:		
Depreciation and amortization	14,005	14,597
Foreign exchange gain	(6,191)	—
Provision for loss	12,728	—
Gain on disposal of hotel investments	(1,029)	(33,347)
Equity in losses of and distributions from hotel investments	2,237	1,783
Loss on repurchase of debt, net of income tax recovery	220	7,032
Deferred income taxes	25,552	10,615
Other	(112)	(408)
Changes in non-cash working capital:		
Accounts receivable	(16,814)	(6,096)
Inventory	(320)	41
Prepaid expenses	(421)	(391)
Accounts payable and accrued liabilities	7,217	3,259
Foreign currency translation effect on non-cash working capital	357	18
Cash flow from operations based on US GAAP	$ 69,897	$ 61,323

(ii) For Canadian GAAP purposes, the Corporation's statements of changes in financial position show dividends as a caption separate from financing activities.

Under US GAAP, dividends paid must be presented as a financing activity.

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(continued)

(iii) As a result of the above adjustments, the major captions on the Corporation's statements of changes in financial position on a Canadian GAAP basis are reconciled to a US GAAP basis as follows:

	1998	1997
Cash flow from operations based on Canadian GAAP	$ 74,961	$ 64,794
Deferred charges	(5,064)	(3,471)
Cash flow from operations based on US GAAP	69,897	61,323
Cash provided by financing based on Canadian GAAP	36,846	6,753
Dividends paid	(3,502)	(3,180)
Cash provided by financing based on US GAAP	33,344	3,573
Cash used in capital transactions based on Canadian GAAP	(116,321)	(58,277)
Deferred charges	5,064	3,471
Cash used in capital transactions based on US GAAP	(111,257)	(54,806)
Increase (decrease) in cash	$ (8,016)	$ 10,090

(K) COMPREHENSIVE INCOME:

In June 1997, the Financial Accounting Standards Board in the United States issued Statement of Financial Accounting Standards No. 130 ("FAS 130") which establishes standards for reporting and display of comprehensive income and its components (revenues, expenses, gains, and losses) in a full set of general-purpose financial statements. FAS 130 requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements.

FAS 130 requires that the Corporation (a) classify items of other comprehensive income by their nature in a financial statement and (b) display the accumulated balance of other comprehensive income separately from capital stock, contributed surplus and retained earnings (deficit) in the shareholders' equity section of the balance sheet.

FAS 130 is effective for fiscal years beginning after December 15, 1997. As required by FAS 130, comprehensive income for the comparative period (year ended December 31, 1997) has also been presented.

The statements of comprehensive income for the years ended December 31, 1998 and 1997 would be presented as follows on a US GAAP basis:

	1998	1997
Net earnings based on US GAAP	$ 32,468	$ 64,220
Other comprehensive income, net of income tax:		
Foreign currency translation gain	17,525	14,118
Less: reclassification adjustment for foreign currency translation gain included in net earnings	(1,782)	(3,196)
Other comprehensive income	15,743	10,922
Comprehensive income based on US GAAP	$ 48,211	$ 75,142

The accumulated other comprehensive income balances for the years ended December 31, 1998 and 1997 would be presented as follows on a US GAAP basis:

Balance at December 31, 1996 (foreign currency items)	$ (4,045)
Foreign currency translation gain	14,118
Less: reclassification adjustment for foreign currency translation gain included in net earnings	(3,196)
Balance at December 31, 1997	6,877
Foreign currency translation gain	17,525
Less: reclassification adjustment for foreign currency translation gain included in net earnings	(1,782)
Balance at December 31, 1998	$ 22,620

(L) INVESTMENTS IN HOTEL PARTNERSHIPS AND CORPORATIONS:

The composition of the Corporation's total investments in and notes from hotel partnerships and corporations on a US GAAP basis are as follows:

	1998	1997
Equity method investments	$ 72,689	$ 55,605
Other investments, on a cost basis	2,539	2,532
Total investments in hotel partnerships and corporations based on US GAAP	$ 75,228	$ 58,137

For the equity method investments, the accounting for these investments represents the aggregate of: (i) capital contributions to the partnerships, (ii) the Corporation's proportionate share of the net earnings or loss of the partnerships, (iii) distributions from the partnerships, and (iv) write-offs for impairment in the carrying value of the investment in the partnerships.

The changes in the Corporation's equity method investments are as follows:

	1998	1997
Equity method investments, beginning of year	$ 55,605	$ 19,119
Net earnings (loss)	(6,814)	1,287
Distributions received	(4,046)	(5,656)
Additional investments	22,524	7,487
Transfer/sale of net assets and other	5,420	33,368
Equity method investments, end of year	$ 72,689	$ 55,605

Management and other fees totalling $27,206 and $16,255 were charged by the Corporation to its equity method investees in 1998 and 1997, respectively.

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(continued)

Summarized balance sheet information of the equity method investments (none of which is individually significant), presented on a 100% basis, is as follows:

	1998	1997
Current assets	$ 68,930	$ 49,348
Long-term assets, net	444,300	315,662
	$ 513,230	$ 365,010
Current liabilities	$ 70,648	$ 57,948
Long-term debt and other	329,943	188,085
Equity	112,639	118,977
	$ 513,230	$ 365,010

Summarized results of operations of the equity method investments (none of which is individually significant), presented on a 100% basis, are as follows:

	1998	1997
Revenues	$ 350,435	$ 302,022
Expenses	(343,788)	(289,610)
Net earnings	$ 6,647	$ 12,412

The proportionate taxable income or loss of all partnership joint ventures is included in the taxable income of their respective partners. Accordingly, no provisions for income taxes on such entities are included in the above statements.

(M) ACCOUNTS PAYABLE AND ACCRUED LIABILITIES:

Accounts payable and accrued liabilities on a US GAAP basis consist of:

	1998	1997
Trade accounts payable	$ 17,965	$ 16,167
Payroll and employee benefits	12,398	12,188
Accrued interest	3,077	3,503
Dividends payable	1,761	1,743
Provision for contingent liabilities and guarantees	—	4,174
Other accruals	7,864	9,298
	$ 43,065	$ 47,073

(N) INCOME TAXES:

The sources of earnings before provisions for income taxes on a US GAAP basis comprise the following:

	1998	1997
Canada	$ 49,092	$ 33,030
Foreign	10,284	50,258
	$ 59,376	$ 83,288

The provision for income taxes on a US GAAP basis is as follows:

	1998	1997
Current		
Canada	$ (156)	$ (165)
Foreign	(980)	(1,256)
	(1,136)	(1,421)
Deferred		
Canada	(25,262)	(10,432)
Foreign	(290)	(183)
	(25,552)	(10,615)
	$ (26,688)	$ (12,036)

During 1998 and 1997, the Corporation paid income taxes of $1,136 and $1,421, respectively.

Income tax expense on a US GAAP basis varies from the amount computed by applying combined Canadian federal and provincial tax rates to earnings before income taxes on a US GAAP basis as follows:

	1998	1997
Earnings before income taxes based on US GAAP	$ 59,376	$ 83,288
Items (not subject to tax) not deductible:		
Gain on disposal of hotel investments	(1,029)	(33,347)
Other	21,273	7,940
Earnings subject to tax	79,620	57,881
Statutory Canadian federal and provincial tax rates	41.5%	41.5%
Expected income tax expense	(33,042)	(24,021)
Reduction in tax due to lower foreign tax rates	3,669	3,143
Change in beginning of year balance in valuation allowance for deferred tax assets	(1,005)	11,943
Adjustments to deferred tax assets and liabilities for changes in tax basis caused by tax reorganizations, dispositions, etc.	3,690	(2,932)
Other	—	(169)
Income tax expense based on US GAAP	$ (26,688)	$ (12,036)

The significant components of deferred income tax expense attributable to earnings before income taxes on a US GAAP basis are as follows:

	1998	1997
Deferred tax expense (exclusive of the effects of the following components)	$ (28,237)	$ (19,626)
Adjustments to deferred tax assets and liabilities for changes in tax basis caused by tax reorganizations, dispositions, etc.	3,690	(2,932)
Decrease (increase) in valuation allowance	(1,005)	11,943
	$ (25,552)	$ (10,615)

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(continued)

The valuation allowance for the year ended December 31, 1998 was $15,649 (1997 – $ 4,644), an increase of $1,005 (1997 – decrease of $11,943). The valuation allowance increased as a result of an increase in capital losses during 1998 for which the Corporation believes that the associated benefit may not be realized. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, the character of the tax asset and tax planning strategies in making this assessment. In order to fully realize the deferred tax assets, the Corporation will need to generate future taxable income of approximately $160,000. Based upon projections of future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Corporation will realize the benefits of these deductible differences, net of the existing valuation allowance. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimated future taxable income during the carryforward period is reduced.

Deferred income taxes on a US GAAP basis arise from temporary differences in the basis of the Corporation's assets and liabilities for tax and financial reporting purposes. Tax effects of these differences are as follows:

	1998	1997
Deferred tax assets:		
Investments in hotel partnerships	$ 19,877	$ 25,341
Tax losses carried forward and other assets	32,452	35,967
Fixed assets	11,991	18,759
Long-term receivables	7,242	15,551
Investments in trademarks and trade names	4,267	2,717
Long-term debt	2,928	3,979
Deferred tax asset before valuation allowance	78,757	102,314
Valuation allowance	(15,649)	(14,644)
Total gross deferred tax assets	63,108	87,670
Deferred tax liabilities:		
Investment in management contracts	(3,168)	(2,207)
Current liabilities	(1,617)	(3,198)
Shareholders' equity	(1,454)	—
Total gross deferred tax liabilities	(6,239)	(5,405)
Net deferred tax asset	$ 56,869	$ 82,265

At December 31, 1998, the Corporation had accumulated net operating losses carried forward of approximately $40,033 for tax purposes, which expire as follows:

Year ending	2000	$ 2,676
	2001	26,525
	2002	1,366
	2004	9,466
		$ 40,033

(O) CAPITAL STOCK:

Changes in stock options for the years ended December 31, 1998 and 1997 were as follows:

	Option Price Range (per Share)	Options Outstanding	Available for Grant
Balance at December 31, 1996	$ 7.00 to $26.68	2,456,554	81,814
Additional options approved by shareholders		—	1,200,000
Granted	$24.95 to $48.34	1,391,572	(1,391,572)
Exercised	$ 7.00 to $18.65	(622,493)	—
Cancelled	$11.30 to $32.07	(112,169)	112,169
Balance at December 31, 1997	$ 8.90 to $48.34	3,113,464	2,411
Additional options approved by shareholders		—	1,150,000
Granted	$30.00 to $49.33	511,000	(511,000)
Exercised	$ 8.90 to $34.08	(190,902)	—
Cancelled	$12.63 to $48.47	(17,000)	17,000
Balance at December 31, 1998	$11.30 to $49.33	3,416,562	658,411
Exercisable at December 31, 1998		1,530,947	

In October 1995, the Financial Accounting Standards Board in the United States issued Statement of Financial Accounting Standards No. 123 ("FAS 123") which provides guidance on the accounting for stock-based compensation plans, such as the Corporation's Director, Officer and Employee Stock Option Plans (the "Plans"). FAS 123 is effective for financial statements for fiscal years beginning after December 15, 1995.

As allowed by FAS 123, the Corporation has decided to continue to use Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" in accounting for the Plans for US GAAP purposes, pursuant to which there is no significant difference between US and Canadian GAAP in the accounting for the granting of options under the Plans.

FAS 123, however, requires certain pro forma and other information to be disclosed as if the Corporation had measured the compensation element of stock options granted based on the fair value of the options on the date of grant. Accordingly, the compensation element of stock options issued by the Corporation in 1998 and 1997, based on the fair value of the options on the date of grant, has been estimated using a Black-Scholes option pricing model with the following assumptions for 1998 and 1997, respectively: risk-free interest rates ranging from 4.8% to 5.7% and 5.6% to 6.8%; semi-annual dividend per Limited Voting Share of $0.055 for both years; volatility factors of the expected market price of the Corporation's Limited Voting Shares ranging from 34% to 39% and 27% to 29%; and an expected life of the options of 10 years. The weighted-average grant-date fair values of options issued in 1998 and 1997 was $23.12 and $21.33, respectively. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period which ranges from one to five years. Retroactive application of the fair value method to prior years is not permitted; therefore, the full effect of the fair value method will not be reflected in the pro forma disclosures until it has been applied to all nonvested options. Assuming the Corporation had accounted for its stock options issued under the fair value method, US GAAP pro forma net earnings for the year ended December 31, 1998 would have been $24,810 (1997 – $60,282) and US GAAP pro forma basic earnings per share and pro forma diluted earnings per share for the year ended December 31, 1998 would have been $0.73 and $0.7[illegible], respectively (1997 – $1.84 and $1.77, respectively).

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(continued)

(P) PENSION PLAN:

In February 1998, the Financial Accounting Standards Board in the United States issued Statement of Financial Accounting Standards No. 132 ("FAS 132") which revises employers' disclosures about pension and other post-retirement benefit plans. It does not change the measurement or recognition of those plans. FAS 132 standardizes the disclosure requirements for pension and other post-retirement benefits to the extent practicable, requires additional information on changes in the benefit obligations and fair values of plan assets that will facilitate financial analysis, and eliminates certain disclosures that are no longer deemed useful.

FAS 132 is effective for fiscal years beginning after December 15, 1997. As required by FAS 132, the disclosures for the comparative period (year ended December 31, 1997) has also been presented.

The following sets forth the disclosures required by FAS 132 for the Corporation's pension plan:

	1998	1997
Change in benefit obligation:		
Benefit obligation, beginning of year	$ 24,670	$ 21,095
Service cost	1,267	1,028
Interest cost	2,076	1,832
Amortization of prior years net loss for changes in assumptions	589	531
Amortization of net transitional obligation	178	180
Benefits paid	(770)	(259)
Other	6	263
Benefit obligation, end of year	28,016	24,670
Unrecognized net loss for changes in assumptions	(5,153)	(5,139)
Unrecognized net transitional obligation	—	(178)
Accrued benefit cost based on US GAAP before allocation	22,863	19,353
Portion allocated to managed properties	(8,313)	(6,659)
Accrued benefit cost based on US GAAP after allocation	$ 14,550	$ 12,694

The benefit obligation is financed by life insurance policies on the lives of each of the participants in the plan. The Corporation's share of the cash surrender value of the policies as at December 31, 1998 was $14,859.

	1998	1997
Weighted average assumptions as of December 31:		
Discount rates	8%	8%
Rates of increase in compensation levels	5%	5%

	1998	1997
Components of net periodic benefit cost before allocation:		
Service cost	$ 1,267	$ 1,028
Interest cost	2,076	1,832
Amortization of prior years net loss for changes in assumptions	589	531
Amortization of net transitional obligation	178	180
Net periodic benefit cost based on US GAAP before allocation	4,110	3,571
Portion allocated to managed properties	(1,744)	(1,490)
Net periodic benefit cost based on US GAAP after allocation	$ 2,366	$ 2,081